

California Budget Project Conference:  
Everything You Wanted  
to Know About Debt Workshop

An Overview of 2005  
Local Bond Issuance in California

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## INTRODUCTION

This presentation will provide a summary of issuance activity compiled by the California Debt and Investment Advisory Commission (CDIAC) for the calendar year 2005. The comprehensive CDIAC annual report for 2005 will be published in the second half of 2006.

# **CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION**

CDIAC provides information, education and technical assistance on public debt, investments, and economic development financing tools to local public agencies and other public finance professionals.

## DEFINITION OF TERMS

### **AD VALOREM TAX**

An annual tax which is a uniform percentage of the value (or assessed value) of property.

### **BONDS**

All types of debt/financing instruments.

### **COMPETITIVE SALE**

Bond sale in which the issuer sells its bonds to the underwriter offering the lowest bid meeting the terms of the sale.

## DEFINITION OF TERMS (continued)

### **MARKS-ROOS LOCAL BONDS POOLING ACT OF 1985**

- Allows Joint Powers Authorities (JPAs) to issue bonds for a variety of purposes.
- Chapter 723, Statutes of 2001, requires certain JPAs issuing Marks-Roos bonds to file with CDIAC and the Office of the Attorney General:
  - Copies of any public hearing notice and
  - Resolutions of intent to issue debt
- Some projects exempt from this requirement under Government Code Section 6586.5 (et seq.):
  - Public transportation
  - Under grounding of utility and communication lines
  - Public school facilities
  - Public highways

## DEFINITION OF TERMS (continued)

### **MELLO-ROOS BONDS (LIMITED TAX OBLIGATION BONDS)**

- Bonds issued under the Mello-Roos Community Facilities District (CFD) Act of 1982.
- Allows public agencies to structure a separate district to finance school facilities and capital improvements, such as libraries, parks, public utilities, etc.

### **MULTIPLE COUNTIES**

An issuer that is comprised of different entities that span two or more counties.

## DEFINITION OF TERMS (continued)

### **NEGOTIATED SALE**

A bond sale in which the underwriter is chosen by the issuer.

### **REFUNDING**

An issue of new bonds (the refunding bonds) to pay debt service on a prior issue (the refunded bonds).

# EXAMPLES OF DIFFERENT FINANCIAL INSTRUMENTS

| INSTRUMENT  | ISSUER   | SECURITY                             |
|---|--|--------------------------------------|
| <b>CONDUIT BONDS</b>  |  |                                      |
| <b>Conduit Revenue Bonds – Economic Development</b>   | California Economic Development Financing Authority (CEDFA), California Pollution Control Financing Authority (CPCFA), Joint Powers Authorities, Industrial Development Agencies | Revenue derived from project         |
| <p><b>Typical Projects:</b> Small manufacturing facilities, pollution control facilities, specific narrowly defined projects.</p> <p><b>Project Examples:</b> Manufacturing, assembly fabrication, renovation or processing plants for goods or agriculture. Hazardous waste disposal and processing facilities, waste collection/treatment facilities.</p> |  |                                      |
| <b>Conduit Revenue Bonds – Educational Facility</b>   | California Educational Facilities Authority (CEFA), Joint Powers Authorities, Charter Cities   | Payments from education facilities   |
| <p><b>Typical Projects:</b> Educational facilities.</p> <p><b>Project Examples:</b> Dormitories, administration buildings, dining halls, student unions, school libraries, research facilities, student loan programs.</p>  |  |                                      |
| <b>Conduit Revenue Bonds - Hospital and Health Care</b>   | California Health Facilities Financing Authority (CHFFA), County Health Care Districts, Charter Cities, Joint Powers Authorities   | Payments from health care facilities |
| <p><b>Typical Projects:</b> Construction, renovation, expansion of health care facilities.</p> <p><b>Project Examples:</b> Acute care hospitals, psychiatric care hospitals, skilled nursing facilities, community clinics, outpatient hospitals.</p>   |  |                                      |



# EXAMPLES OF DIFFERENT FINANCIAL INSTRUMENTS

(continued)

| INSTRUMENT  | ISSUER  | SECURITY  |
|---|---|---|
| <b>CONDUIT BONDS (continued)</b>  |   |   |
| <b>Conduit Revenue Bonds - Multifamily Housing</b>  | Cities, Counties, Joint Powers Authorities, Housing Authorities, Redevelopment Agencies | Revenue derived from project or lending program                 |
| <p><b>Typical Projects:</b> Financing and/or refinancing construction, renovation, rental housing developments for private developers.</p> <p><b>Project Examples:</b> Multifamily projects, including apartment buildings.</p>   |   |   |
| <b>Marks-Roos Bonds</b>   | Joint Powers Authorities  | General fund or revenue derived from participating local agency |
| <p><b>Typical Projects:</b> Assisting local agencies with financing needs. Capital improvement bonds, bond pooling, and working capital or insurance programs.</p> <p><b>Project Examples:</b> Public buildings, stadiums, electric utilities, water and sewer treatment, airports, police stations, libraries, low income housing, mass transit, telecommunications.</p> |   |   |

# EXAMPLES OF DIFFERENT FINANCIAL INSTRUMENTS

(continued)

| INSTRUMENT  | ISSUER                               | SECURITY                   |
|---|--------------------------------------|----------------------------|
| <b>DIRECT BONDS</b>   |                                      |                            |
| <b>Local Agency General Obligation Bonds</b>  | Multiple Entities                    | Ad valorem tax             |
| <p><b>Typical Projects:</b> Projects are classified by City, County, School District, and Special District</p> <p><b>Project Examples:</b> Schools, parks, highways, bridges, airports, hospitals, flood control, redevelopment projects.</p>   |                                      |                            |
| <b>Mello-Roos Bonds</b>   | Community Facilities Districts (CFD) | Parcel taxes               |
| <p><b>Typical Projects:</b> Purchase or rehabilitation of real or other tangible property with a useful life of at least five years. Services associated with the CFD.</p> <p><b>Project Examples:</b> Local parks, recreation, open-space, schools, libraries, child care centers, water/power/gas facilities. Service such as police, fire, recreation, and park maintenance.</p> |                                      |                            |
| <b>Sales Tax Bonds</b>  | Special Sales Tax Districts          | Sales and use tax revenues |
| <p><b>Typical Projects:</b> Transportation infrastructure.</p> <p><b>Project Examples:</b> Highway improvement, expansion, and maintenance. Public transit systems.</p>   |                                      |                            |

# EXAMPLES OF DIFFERENT FINANCIAL INSTRUMENTS

(continued)

| INSTRUMENT   | ISSUER   | SECURITY |
|--|--|----------|
| <b>LEASES</b>  |  |          |
| <b>Certificates of Participation/<br/>Financial Leases</b>   | Joint Powers Authority, Non-Profit Corporations, Leasing Companies, Banks or Other Lessors | Rent     |
| <b>Typical Projects:</b> Public buildings. Only land and depreciable property that a public agency has statutory authorization to lease. |  |          |
| <b>Project Examples:</b> Educational facilities; irrigation, water, sewer, police, and fire facilities; transportation equipment.        |  |          |

# COMPARISON OF 2005 STATE ISSUANCE

## COMPARISON RANKINGS<sup>1</sup> *(as of September 2005)*

- California issued \$43.8 billion<sup>2</sup> in bonds, more than any other state.
- New York ranks second with \$32.1 billion.
- Texas ranks third with \$29.3 billion.

<sup>1</sup>Source (for New York and Texas): The Bond Market Association, *Municipal Bond Credit Report*, January 2006.

<sup>2</sup>Source: California Debt and Investment Advisory Commission.

# **BOND APPROVAL PROCESS**

## SUMMARY OF BOND ISSUANCE

- The process of issuing bonds is the process of borrowing money.
- A bond is evidence of the issuer's debt, i.e., its obligation to pay a stated amount of money (principal) at a given time (maturity) with interest, payable either periodically or at maturity.
- The initial buyer of the bond is "lending" money to the issuer in return for the issuer's obligation to pay (repay) money in the future with interest.
- An issuer is authorized by state law to issue bonds (borrow money) for many different specific purposes.

# TYPICAL BOND APPROVAL PROCESS

## 1. Preliminary Discussion

- Negotiated Sale

The issuer meets with the underwriter, bond counsel, and underwriter's counsel.

- Competitive Sale

The issuer consults with a financial advisor to arrange the bond sale.

2. Issuer adopts a resolution stating intention to proceed with a bond financing.
3. Preliminary drafts of bond documentation are produced and reviewed by bond counsel and underwriter (if a negotiated sale).

# TYPICAL BOND APPROVAL PROCESS

(continued)

4. After a 14-day notice, the issuer initiates a public hearing on the new financing.
5. The issuer adopts the bond resolution and agrees to sell the bonds to the underwriter.
6. Approval of documents and execution of the bonds.



# SPECIFIC BOND APPROVAL PROCESSES

## **CONDUIT REVENUE BONDS (CRBs) FOR MULTIFAMILY RENTAL HOUSING**

- May require an election if issued by a charter city whose charter requires an election for revenue bonds.
- Under certain circumstances, pursuant to Article XXXIV of the California Constitution, if 50 percent or more of the units are for low income, may be necessary to obtain voter approval.

# SPECIFIC BOND APPROVAL PROCESSES

(continued)

## **GENERAL OBLIGATION BONDS (GOBs)**

- Issuance of bonds requires an election.
  - In 2000, Proposition 39 lowered voter approval from two-thirds to 55 percent for school district GOBs. All other GOBs require two-thirds voter approval.
- City council, county board of supervisors, or school district must pass a resolution.
- Cities must have a competitive sale, but counties and school districts have the option of competitive or negotiated.
- Secured by ad valorem property taxes.

# SPECIFIC BOND APPROVAL PROCESSES

(continued)

## **LIMITED TAX OBLIGATION BONDS (LTOBs)**

- Must be presented to voters and receive two-thirds approval.
- Issued by community facilities districts.
- Paid by a levy of special taxes.

# **LOCAL BOND ISSUANCE**

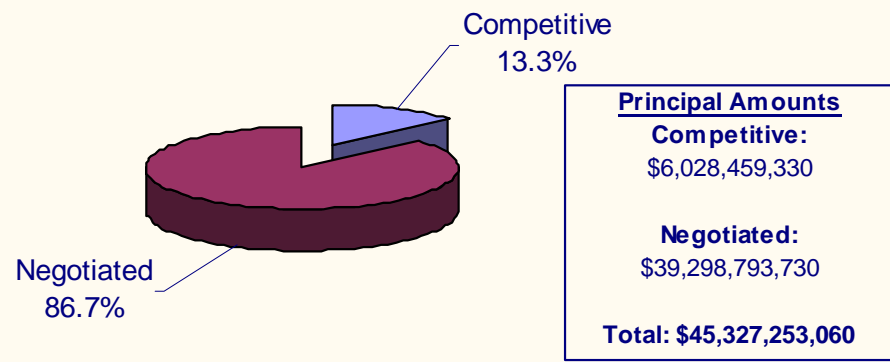
## **QUICK FACTS ON 2005 CALIFORNIA LOCAL BOND ISSUANCE**

- Total local agency bond issuance amount: \$45,327,253,060 (as shown in Figure 1)
- Local agency refunding amount: \$17,177,645,385
- Total local agency new bond issuance: \$28,149,607,675
- Competitive Sales: 13.3 percent (as shown in Figure 2)
- Negotiated Sales: 86.7 percent
- Number of local bond issues: 1,757
- Number of local issuers: 1180

**Figure 1**  
**2005 and 2004**  
**Comparison of New and Refunding**  
**Bond Issuance**  
(Dollars in Millions)

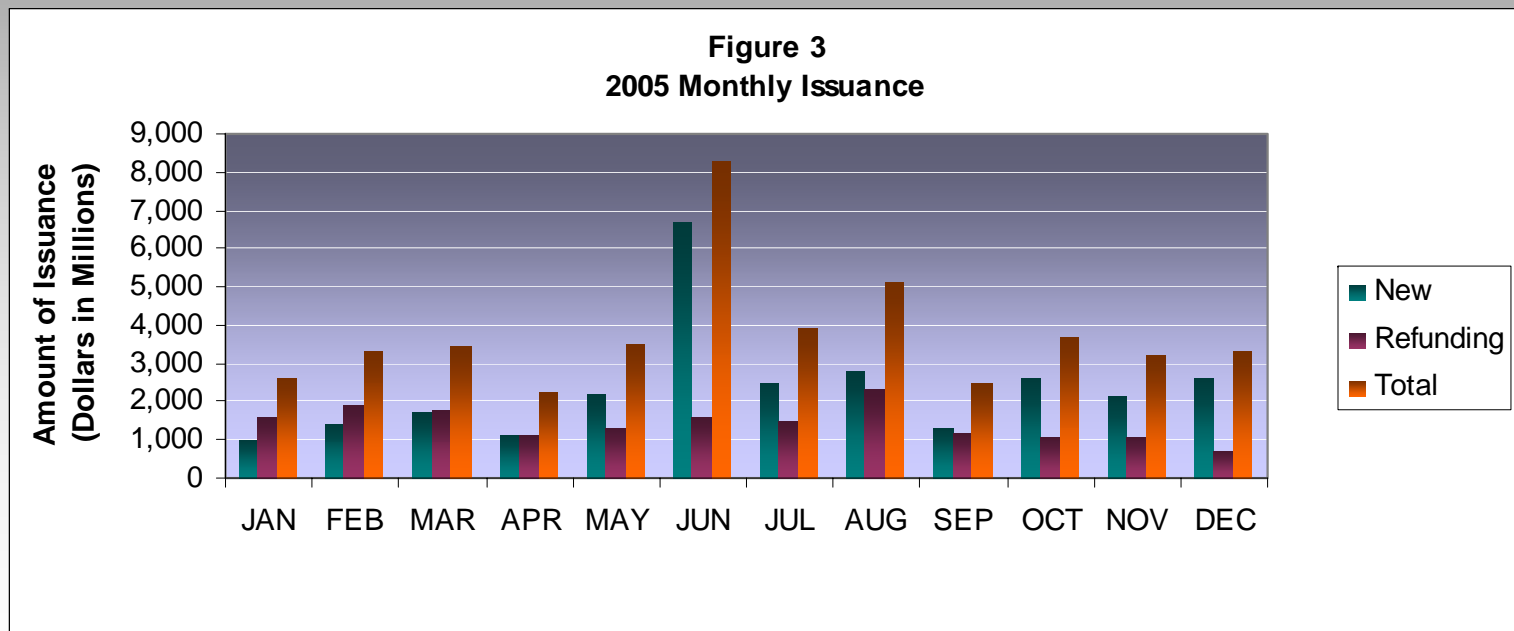
|              | <b>2005</b>                 |                             | <b>2004</b>                 |                             |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|              | <b>Principal<br/>Amount</b> | <b>Percent<br/>of Total</b> | <b>Principal<br/>Amount</b> | <b>Percent<br/>of Total</b> |
| New          | \$28,150                    | 62.1%                       | \$28,311                    | 73.4%                       |
| Refunding    | \$17,177                    | 37.9%                       | \$10,279                    | 26.6%                       |
| <b>Total</b> | <b>\$45,327</b>             | <b>100.0%</b>               | <b>\$38,590</b>             | <b>100.0%</b>               |

**Figure 2**  
**2005 Negotiated and Competitive**  
**Local Bond Issuance**



Since summer of 2004, the Federal Reserve continued to incrementally raise short-term rates throughout 2005; however, long-term rates remained stable, below 5 percent.

Local governments in California and throughout the country have taken advantage of historically low fixed interest rates and have issued a near record number of financings and refinancings during 2005, as shown in Figure 3.





# GEOGRAPHICAL LOCATION

## **REGIONS**

CDIAC has categorized local issuance into nine geographical regions:

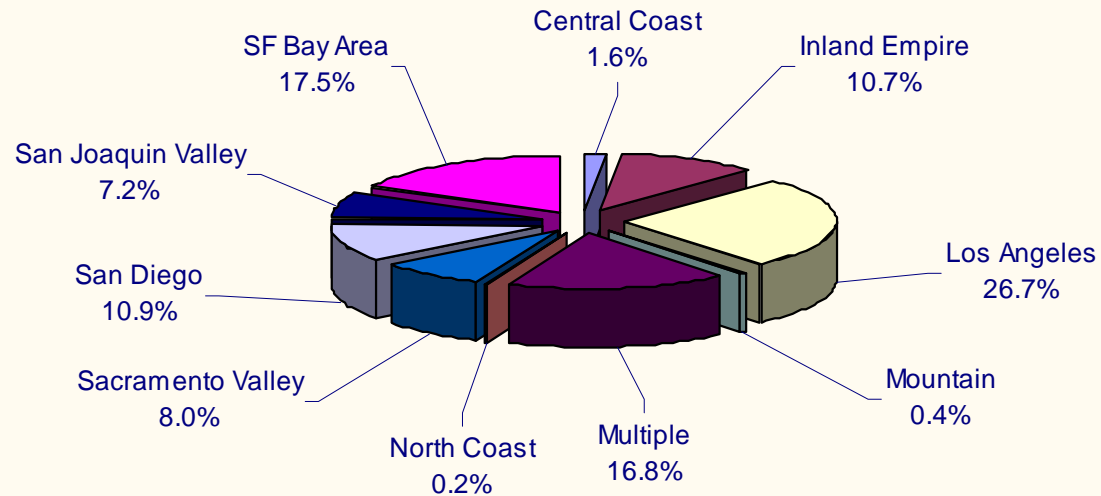
- Los Angeles
  - San Diego
  - Inland Empire
  - North Coast
  - San Francisco Bay Area
  - Sacramento Valley
  - Central Coast
  - San Joaquin Valley
  - Mountain
- "Multiple" category is for issuers that span more than one county.

Figures 4 and 5 on the following slides compare regional bond issuance for years 2004 and 2005.

# GEOGRAPHICAL LOCATION

(continued)

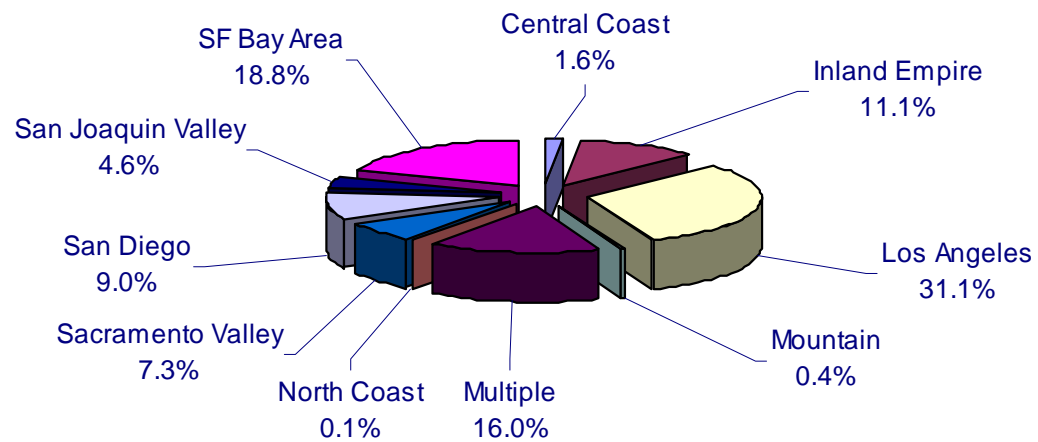
**Figure 4**  
**2004**  
**Local Bond Issuance**  
**by Region**



# GEOGRAPHICAL LOCATION

(continued)

**Figure 5**  
**2005**  
**Local Bond Issuance**  
**by Region**



# GEOGRAPHICAL LOCATION

(continued)

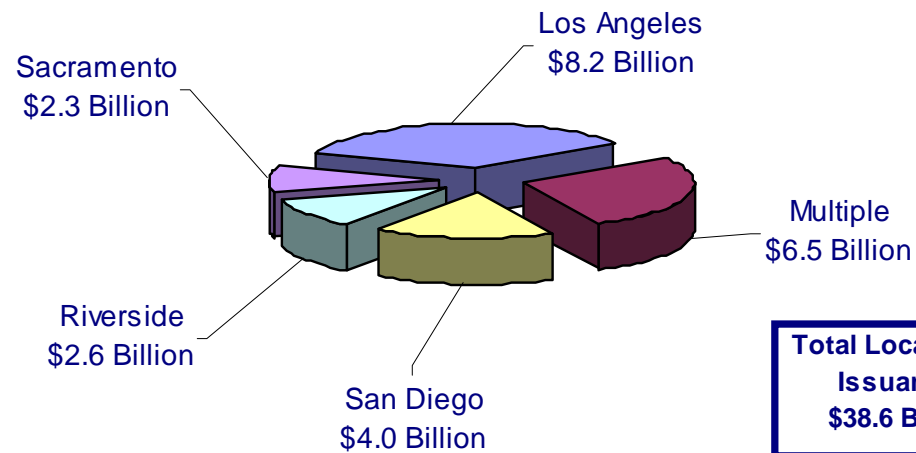
## **COUNTIES**

- In 2004 and 2005, Los Angeles County completed the most bond financings (as shown in Figures 6 and 7).
- Riverside and San Diego Counties are among the top five counties with the most in bond issuance for both years;
- Orange County replaced Sacramento County in 2005.
- "Multiple" category is among top five for 2004 and 2005.

# GEOGRAPHICAL LOCATION

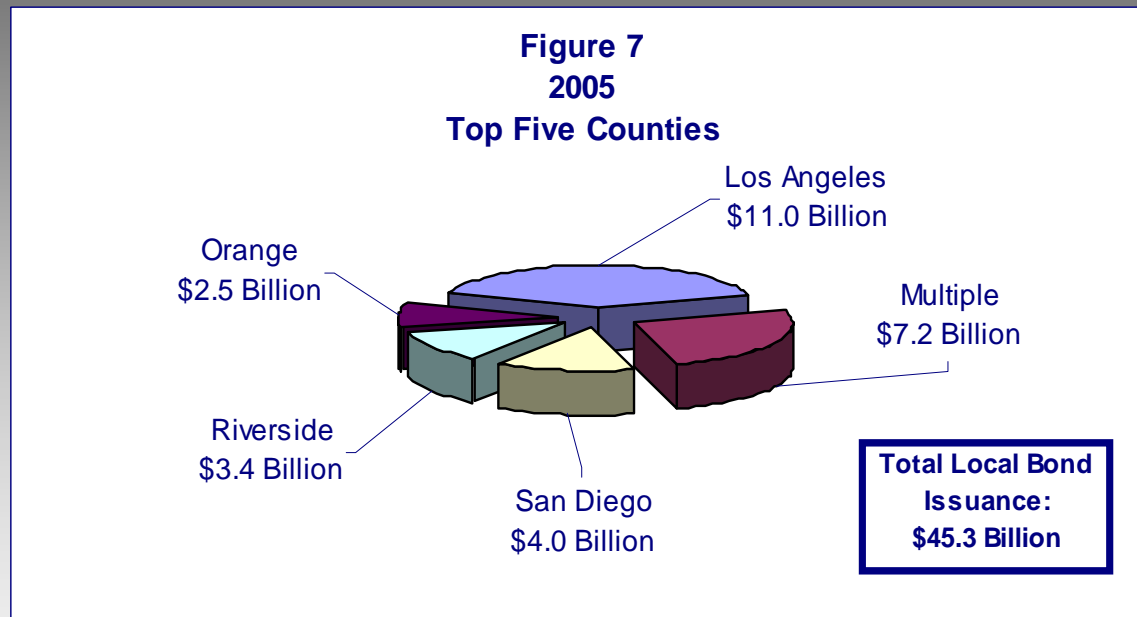
(continued)

**Figure 6**  
**2004**  
**Top Five Counties**



# GEOGRAPHICAL LOCATION

(continued)



# TYPES OF DEBT AND PROJECTS

## LOCAL AGENCY GENERAL OBLIGATION BONDS

Total Issued: 358

Figure 8

2005 General Obligation Bond Issuance

|  | Amount                  | Refunding              | Refunding Projects  | Issuer Types  |
|--|-------------------------|------------------------|---|---|
| <b>Capital Improvements</b>            | \$698,889,458           | \$180,610,000          | <ul style="list-style-type: none"> <li>•Flood Control/Storm Drainage</li> <li>•Public Buildings</li> <li>•Water Supply/Storage/Distribution</li> <li>•Parks/Open Space</li> </ul> | <ul style="list-style-type: none"> <li>•Municipal Water Districts</li> <li>•Cities</li> <li>•Transportation District</li> <li>•Water Authority</li> <li>•Joint Powers Authority</li> <li>•Community Service District</li> <li>•Metropolitan Water District</li> <li>•City/County</li> </ul> |
| <b>Education</b>                       | \$10,415,800,374        | \$5,132,762,296        | <ul style="list-style-type: none"> <li>•College/University Facilities</li> <li>•K-12 School Facilities</li> </ul>   | <ul style="list-style-type: none"> <li>•Community College Districts</li> <li>•School Districts</li> </ul>   |
| <b>Hospital Health Care Facilities</b> | \$475,923,043           | \$0                    | None  | <ul style="list-style-type: none"> <li>•Hospital Districts</li> <li>•City/County</li> </ul>   |
| <b>TOTAL</b>                           | <b>\$11,590,612,875</b> | <b>\$5,313,372,296</b> |   |   |

# TYPES OF DEBT AND PROJECTS

(continued)

## CERTIFICATES OF PARTICIPATION/LEASES (COP/L)

Total Issued: 196

Figure 9

2005 Certificates of Participation/Leases

|  | Amount                 | Refunding              | Refunding Projects  | Issuer Types   |
|--|------------------------|------------------------|---|--|
| <b>Capital Improvements</b>            | \$1,654,307,111        | \$693,426,467          | <ul style="list-style-type: none"> <li>•Bridges and Highways</li> <li>•Convention Center</li> <li>•Multiple Capital Improvements</li> <li>•Public Buildings</li> <li>•Parks/Open Space</li> <li>•Public Transit</li> <li>•Power Generation/Transmission</li> <li>•Recreation and Sports Facilities</li> <li>•Solid Waste Recovery Facilities</li> <li>•Wastewater Collection and Treatment</li> <li>•Water Supply/Storage/Distribution</li> </ul> | <ul style="list-style-type: none"> <li>•Cities</li> <li>•Counties</li> <li>•County Water Districts</li> <li>•Community Service Districts</li> <li>•Fire Protection Districts</li> <li>•Irrigation Districts</li> <li>•Joint Powers Authorities</li> <li>•Municipal Utility District</li> <li>•Municipal Water District</li> <li>•Non-Profit Corporations</li> <li>•Park and Recreation Districts</li> <li>•Public Utility District</li> <li>•Resource Conservation District</li> <li>•Sanitary Districts</li> <li>•Sanitation, Flood Control District</li> <li>•Water Authorities</li> <li>•Water Districts</li> </ul> |
| <b>Education</b>                       | \$952,177,591          | \$380,827,996          | •K-12 School Facilities   | <ul style="list-style-type: none"> <li>•Community College Districts</li> <li>•School Districts</li> <li>•County Board of Education</li> </ul>  |
| <b>Hospital Health Care Facilities</b> | \$168,680,000          | \$41,632,596           | <ul style="list-style-type: none"> <li>•Communications Equipment</li> <li>•Health Care Facilities</li> </ul>  | <ul style="list-style-type: none"> <li>•Cities</li> <li>•Counties</li> </ul>   |
| <b>Housing</b>                         | \$1,400,000            | \$0                    | •Multifamily Housing  | •City  |
| <b>Redevelopment</b>                   | \$15,350,000           | \$15,342,094           | •Redevelopment  | •City  |
| <b>TOTAL</b>                           | <b>\$2,791,914,702</b> | <b>\$1,131,229,153</b> |   |  |



# TYPES OF DEBT AND PROJECTS

(continued)

## **MELLO-ROOS BOND ISSUANCE/LIMITED TAX OBLIGATION BONDS (LTOBs)**

Total Issued: 188

Figure 10

2005 Limited Tax Obligation Bond Issuance

|                      | Amount          | Refunding     | Refunding Projects  | Issuer Type                     |
|----------------------|-----------------|---------------|---|---------------------------------|
| Capital Improvements | \$1,803,671,910 | \$570,937,094 | <ul style="list-style-type: none"><li>•Flood Control/Storm Drainage</li><li>•Multiple Capital Improvements</li><li>•Wastewater Collection and Treatment</li></ul> | •Community Facilities Districts |
| Education            | \$854,291,305   | \$387,616,506 | •K-12 School Facilities   |                                 |
| TOTAL                | \$2,657,963,215 | \$958,553,600 |   |                                 |

# TYPES OF DEBT AND PROJECTS

(continued)

## CONDUIT REVENUE BONDS (CRBs)

Total Issued: 181

Figure 11  
2005 Conduit Revenue Bond Issuance

|                                 | Amount                 | Refunding              | Refunding Projects  | Issuer Types  |
|---------------------------------|------------------------|------------------------|---|---|
| Capital Improvements            | \$23,145,000           | \$3,835,653            | •Equipment  | •City<br>•Marks-Roos  |
| Commercial Development          | \$10,800,000           | \$0                    | •Commercial Development   | •Industrial Development Authority   |
| Industrial Development          | \$37,861,000           | \$8,106,000            | •Industrial Development   |   |
| Pollution Control               | \$268,485,000          | \$268,485,000          | •Air and Water Pollution Control Facilities<br>•Solid Waste Disposal Facilities | •Joint Powers Authority   |
| Education                       | \$257,965,000          | \$62,957,168           | •K-12 School Facilities   | •Joint Powers Authorities (Marks-Roos)  |
| Hospital/Health Care Facilities | \$1,783,720,000        | \$823,212,470          | •Hospital and Health Care Facilities  | •Cities<br>•Marks-Roos  |
| Housing                         | \$1,467,006,132        | \$154,774,233          | •Multifamily Housing  | •Cities<br>•County<br>•Housing Authorities<br>•Joint Powers Authorities/<br>(Marks-Roos)<br>•Redevelopment Agencies |
| <b>TOTAL</b>                    | <b>\$3,848,982,132</b> | <b>\$1,321,370,524</b> |   |   |

# MARKS-ROOS BOND ISSUANCE

- Total Issued: 165

Figure 12  
2005 Marks-Roos Bond Issuance

|                                       | Amount                 | Refunding              | Refunding Projects  |
|---------------------------------------|------------------------|------------------------|---|
| <b>Capital Improvements</b>           | \$3,178,553,743        | \$1,127,726,135        | <ul style="list-style-type: none"> <li>•Airport</li> <li>•Flood Control/Storm Drainage</li> <li>•Public Building</li> <li>•Parking</li> <li>•Parks/Open Space</li> <li>•Power Generation/Transmission</li> <li>•Seismic Safety Improvements/Repair</li> <li>•Solid Waste Recovery Facilities</li> <li>•Wastewater Collection and Treatment</li> <li>•Water Supply/Storage/Distribution</li> </ul> |
| <b>Education</b>                      | \$724,282,318          | \$50,179,279           | <ul style="list-style-type: none"> <li>•College/university facilities</li> <li>•K-12 school facilities</li> </ul>   |
| <b>Housing</b>                        | \$20,160,000           | \$6,800,000            | <ul style="list-style-type: none"> <li>•Single-family housing</li> <li>•Multifamily housing</li> </ul>  |
| <b>Interim (Short-term) Financing</b> | \$222,710,000          | \$0                    |   |
| <b>Other</b>                          | \$874,335,000          | \$414,170,146          | <ul style="list-style-type: none"> <li>•Bankruptcy Recovery Bonds</li> </ul>  |
| <b>Insurance/Pension Funds</b>        | \$174,810,000          | \$128,576,839          | <ul style="list-style-type: none"> <li>•Pensions</li> </ul>   |
| <b>Redevelopment</b>                  | \$1,120,164,542        | \$259,058,853          | <ul style="list-style-type: none"> <li>•Redevelopment</li> </ul>  |
| <b>TOTAL</b>                          | <b>\$6,315,015,603</b> | <b>\$1,986,511,252</b> |   |

# EDUCATION BOND ISSUANCE

- Total Issued: 507
- Total Principal Amount: \$13,400,241,588
- Total Refunding Amount: \$6,047,214,014

Figure 13  
2005 Education Bond Issuance  
by Purpose

| Purpose                       | Number<br>of<br>Issues | Percent of<br>Total Issues | Dollar Amount Issued    | Percent of<br>Total<br>Dollar<br>Amount |
|-------------------------------|------------------------|----------------------------|-------------------------|---|
| College/University Facilities | 65                     | 12.8%                      | \$3,613,351,563         | 27.0%                                   |
| K-12 School Facilities        | 413                    | 81.5%                      | \$9,243,340,904         | 69.0%                                   |
| Other Multiple Education*     | 28                     | 5.5%                       | \$391,299,121           | 2.9%                                    |
| Student Loan                  | 1                      | 0.2%                       | \$152,250,000           | 1.1%                                    |
| <b>TOTAL</b>                  | <b>507</b>             | <b>100.00%</b>             | <b>\$13,400,241,588</b> | <b>100.00%</b>                          |

\*Includes software, equipment, modular classrooms, etc.

- Questions and Answers